

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Barry County Substance Abuse Services	County Barry
Fiscal Year End 9/30/2007	Opinion Date 2/1/2008	Date Audit Report Submitted to State 3/10/2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

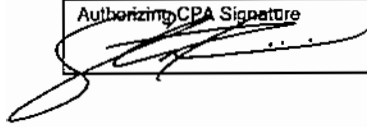
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number 517-351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Authorizing CPA Signature 		Printed Name Steven R. Kirinovic, CPA	License Number 1101022020

**Barry County Substance Abuse Services  
Hastings, Michigan**

**FINANCIAL STATEMENTS**

**September 30, 2007**

Barry County Substance Abuse Services

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Principals

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Barry County Substance Abuse Services  
Hastings, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Barry County Substance Abuse Services, a component unit of Barry County, Michigan as of and for the year ended September 30, 2007, which collectively comprise the Agency's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Barry County Substance Abuse Service's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Barry County Substance Abuse Services as of September 30, 2007, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 1, 2008, on our consideration of the Barry County Substance Abuse Services' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Agency has not presented a Management's Discussion and Analysis (MD&A), which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that the MD&A is necessary to supplement, although not required to be part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the component unit financial statements that collectively comprise the Barry County Substance Abuse Services' basic financial statements. The accompanying other supplementary information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Barry County Substance Abuse Services. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements have been prepared assuming that Barry County Substance Abuse Services will continue as a going concern. As discussed in Note K to the financial statements, the Agency has suffered expenditures in excess of revenues and has a deficiency in fund balance and net assets that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note K. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

February 1, 2008

## **BASIC FINANCIAL STATEMENTS**

## Barry County Substance Abuse Services

## STATEMENT OF NET ASSETS

September 30, 2007

	Governmental Activities
<b>ASSETS</b>	
Current assets	
Cash	\$ (26,443)
Accounts receivable	9,210
Due from State	8,533
Inventory	523
	<hr/>
Total current assets	(8,177)
Noncurrent assets	
Capital assets, net of accumulated depreciation	22,738
	<hr/>
TOTAL ASSETS	14,561
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	1,156
Accrued liabilities	15,489
Current portion of capital lease payable	7,932
Current portion of compensated absences	12,446
	<hr/>
Total current liabilities	37,023
Noncurrent liabilities	
Capital lease payable	13,220
Compensated absences	5,334
	<hr/>
Total noncurrent liabilities	18,554
	<hr/>
TOTAL LIABILITIES	55,577
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	1,586
Unrestricted	(42,602)
	<hr/>
TOTAL NET ASSETS	\$ (41,016)
	<hr/>

See accompanying notes to financial statements.

Barry County Substance Abuse Services

STATEMENT OF ACTIVITIES

Year Ended September 30, 2007

Functions/Programs	Expenses	Program Revenues		Net (Expense) and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Health and welfare	<u>\$ 617,026</u>	<u>\$ 148,867</u>	<u>\$ 362,287</u>	\$ (105,872)
General revenues:				
Miscellaneous				<u>15,852</u>
Change in net assets				(90,020)
Net assets, beginning of the year				<u>49,004</u>
Net assets, end of the year				<u>\$ (41,016)</u>

See accompanying notes to financial statements.



Barry County Substance Abuse Services  
GOVERNMENTAL FUND BALANCE SHEET

September 30, 2007

	Special Revenue
ASSETS	
Cash	\$ (26,443)
Accounts receivable	9,210
Due from State	8,533
Inventory	<u>523</u>
TOTAL ASSETS	<u><u>\$ (8,177)</u></u>
LIABILITIES AND FUND BALANCE (DEFICIT)	
LIABILITIES	
Accounts payable	\$ 1,156
Accrued liabilities	<u>15,489</u>
TOTAL LIABILITIES	16,645
FUND BALANCE (DEFICIT)	
Unreserved - undesignated	<u>(24,822)</u>
TOTAL LIABILITIES AND FUND BALANCE (DEFICIT)	<u><u>\$ (8,177)</u></u>

See accompanying notes to financial statements.

Barry County Substance Abuse Services

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

September 30, 2007

**Total fund balance (deficit) - governmental funds** **\$ (24,822)**

Amounts reported for the governmental activities in the statement  
of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	31,728	
Accumulated depreciation is	<u>(8,990)</u>	
		22,738

Long-term liabilities are not due and payable in the current period and  
therefore are not reported in the Governmental Funds Balance Sheet.  
Long-term liabilities at year-end consist of:

Capital lease payable	(21,152)	
Compensated absences	<u>(17,780)</u>	
		<u>(38,932)</u>

**Net assets of governmental activities** **\$ (41,016)**

See accompanying notes to financial statements.

Barry County Substance Abuse Services

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - GOVERNMENTAL FUND

Year Ended September 30, 2007

REVENUES	
Intergovernmental	\$ 362,287
Charges for services	148,867
Other	<u>15,852</u>
TOTAL REVENUES	527,006
EXPENDITURES	
Health and welfare	
Treatment	390,240
Prevention	119,181
Women specialty	64,534
Assessment	28,905
Methamphetamine task force	<u>17,312</u>
TOTAL EXPENDITURES	<u>620,172</u>
NET CHANGE IN FUND BALANCE	(93,166)
Fund balance, beginning of year	<u>68,344</u>
Fund balance (deficit), end of year	<u><u>\$ (24,822)</u></u>

See accompanying notes to financial statements.

Barry County Substance Abuse Services

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE  
IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended September 30, 2007

<b>Net change in fund balance - total governmental funds</b>	<b>\$ (93,166)</b>
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Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, this amount is:

Depreciation expense	(6,346)
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Capital lease principal retirement	7,932
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued compensated absences	<u>1,560</u>
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<b>Change in net assets of governmental activities</b>	<b><u>\$ (90,020)</u></b>
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See accompanying notes to financial statements.

Barry County Substance Abuse Services

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Barry County Substance Abuse Services (the Agency) was established in 1976 under the charter of Barry County Board of Commissioners, to develop, promote and support programs in substance abuse prevention and treatment. The Barry County Substance Abuse Service activities are overseen by a nine (9) member board of Directors of which three (3) members are County Commissioners and six (6) members are from the community at large. Much of Barry County Substance Abuse Services' funding comes from a contract with Kalamazoo Human Service Department, Substance Abuse Services, which is charged with funding and overseeing services in Barry, Branch, Kalamazoo, and St. Joseph Counties.

**1. Reporting Entity**

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14 (as amended by GASB Statement No. 39), *The Financial Reporting Entity*, and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of the Barry County Substance Abuse Services. The Agency is considered a component unit of Barry County, Michigan and is blended in Barry County's (the Primary Government) financial statements. A copy of the County's audited financial statements may be obtained at the County Courthouse in Hastings, Michigan.

**2. Basis of Presentation**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The statement of net assets and the statement of activities (the Government-wide statements) present information for the Service as a whole.

The statement of activities presents the direct functional expenses of the Agency and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all interest and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the Agency.

**FUND FINANCIAL STATEMENTS**

The Operating fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of this fund present increases (i.e., revenues) and decreases (i.e., expenditures) in net current assets.

The major fund of the Agency is:

- a. The Operating (Special Revenue) Fund is the general operating fund of the Agency. It is used to account for all financial resources.

**3. Measurement Focus**

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**3. Measurement Focus - continued**

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**4. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. Governmental fund financial statements use the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues, which are considered measurable but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

**5. Budgets and Budgetary Accounting**

The Special Revenue Fund budget shown in the required supplementary information was prepared on the same modified accrual basis used to reflect actual results. The Agency employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. The Agency prepares the proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and resources to finance them.
- b. Prior to October 1, the budget is legally enacted through board approval.
- c. The budget is legally adopted at the total expenditure level; however, they are maintained at the account level for control purposes.
- d. Budgeted amounts are reported as originally adopted or amended by the Agency during the year.

**6. Cash**

The Agency operates out of a pooled account which the County pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing securities and disclosed as investments when present.

**7. Receivables**

Receivables consist of amounts due from governmental units for various programs and accounts receivable related to charges for services.

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**8. Capital Assets**

Capital assets include furniture and fixtures and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Furniture and fixtures	5 years
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**9. Long-Term Liabilities**

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

**10. Compensated Absences**

In accordance with personnel policies, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the personnel policies handbook.

Vested vacation and sick leave earned as of September 30, 2007, is recorded in the government-wide financial statements.

**11. Estimates**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**12. Comparative Data**

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

Barry County Substance Abuse Services

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE B: CASH**

In accordance with Michigan Compiled Laws, the Agency is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Cash on the balance sheet consists of the following:

Deposits with Barry County common cash pool account	\$( <u>26,443</u> )
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The Agency is part of the County's pooled cash account with approximately sixty (60) other County funds. The Agency's cash in its individual fund is reflected as an overdraft but the pooled cash account in total is positive at the County level.

The Agency's bank deposits at September 30, 2007, are composed of the following:

Carrying Amount
\$( <u>26,443</u> )

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of September 30, 2007, the Agency did not have any investments that would be subject to rating.



## Barry County Substance Abuse Services

## NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE B: CASH - CONTINUED**Interest rate risk

The Agency has not adopted a policy that indicates how the Agency will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of credit risk

The Agency has not adopted a policy that indicates how the Agency will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Agency's investment in a single issuer.

Custodial credit risk

The Agency has not adopted a policy that indicates how the Agency will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

The deposits with Barry County in the common pooled cash account in the amount of \$(26,443) cannot be categorized due to being combined with other County funds. This combination with the County's common pooled cash also does not allow for a presentation of the Agency's bank balance as it is a component of the County common cash.

**NOTE C: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2007 was as follows:

	Balance Oct. 1, 2006	Additions	Deletions	Balance Sept. 30, 2007
Governmental activities				
Furniture and fixtures	\$ 31,728	\$ -	\$ -	\$ 31,728
Less accumulated depreciation for:				
Furniture and fixtures	( 2,644 )	( 6,346 )	-	( 8,990 )
Capital assets, net	\$ 29,084	\$( 6,346 )	\$ -0-	\$ 22,738

Depreciation expense of \$6,346 was included on the statement of activities under the "Health and welfare" function.

**NOTE D: LONG-TERM DEBT**

The following is a summary of the changes in long-term debt (including current portion) of the Agency for the year ended September 30, 2007:

	Balance Oct. 1, 2006	Additions	Deletions	Balance Sept. 30, 2007	Amounts Due Within One Year
Capital lease	\$ 29,084	\$ -	\$ 7,932	\$ 21,152	\$ 7,932
Compensated absences	19,340	-	1,560	17,780	12,446
	\$ 48,424	\$ -0-	\$ 9,492	\$ 38,932	\$ 20,378

Barry County Substance Abuse Services

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE D: LONG-TERM DEBT - CONTINUED**

Compensated Absences

In accordance with Agency personnel policies, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their personnel policies handbook.

The dollar amount of these vested rights amounted to \$15,109 and \$2,671 for vacation and sick leave, respectively, at September 30, 2007. This amount, \$17,780, has been reported as a current (\$12,446) and noncurrent (\$5,334) liability, based on management's determination, in the government-wide financial statements.

Capital Lease

The Agency has entered into one (1) lease purchase agreement, under act 99 PA of 1933, as amended, to finance the acquisition of office furniture and equipment. The liability for the office furniture and equipment is recorded in the government-wide financial statements. The cost of the office furniture and equipment amounted to \$31,728. This noninterest bearing capital lease has been recorded at the present value of the future minimum lease payments as of the date of their inception. This lease qualifies as a capital lease for accounting purposes because substantially all of the benefits and risks inherent in the ownership of the property rest with the Agency.

Commitments under this lease agreement (with interest at 0%) provide for the minimum annual payments as follows:

<u>Years Ending</u> <u>September 30,</u>	<u>Principal</u>
2008	\$ 7,932
2009	7,932
2010	<u>5,288</u>
	<u>\$ 21,152</u>

**NOTE E: OPERATING LEASE**

The Agency is obligated under a noncancelable vehicle lease expiring August 2011. Vehicle rent expense related to this operating lease was \$7,522 for the year ended September 30, 2007. Future minimum lease payments are as follows:

<u>Years Ending</u> <u>September 30,</u>	
2008	\$ 3,814
2009	3,814
2010	3,814
2011	<u>32</u>
	<u>\$ 11,474</u>

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE F: EMPLOYEE RETIREMENT SYSTEM**

The Agency is included within the County's retirement plan and the County participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public retirement system. There is no separate information available for the Agency related to the retirement plan so the information in this note is based on county-wide information. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917. All full-time County employees are covered by the retirement system with exception of the Road Commission employees. The Road Commission employees are covered under a separate retirement plan. The retirement plan also includes employees that work for County departments who are excluded from the County's basic financial statements. The excluded departments (component units) that are in the plan include the Barry County Medical Care Facility, Barry County Transit, and Barry County Community Mental Health Services.

The benefits and conditions outlined below are for general information only. Public Act 427 of 1984, as amended, covers the benefits and conditions of the Municipal Retirement systems.

**Normal Retirement:**

Age 50 with 25 or more years of credited service

Age 55 with 15 or more years of credited service

Age 60 with 10 or more years of credited service

Mandatory Retirement: None

**Deferred Retirement:**

The termination of membership before age 60, other than by retirement or death, after 10 years of credited service is considered a deferred retirement. Retirement allowance begins upon application and satisfaction of normal retirement requirements. The retirement allowance is computed in the same manner as a service retirement with the applicable benefit program being determined as of the date of termination of membership.

Rights to an allowance are forfeited if the member's accumulated contributions are withdrawn.

Benefit allowances are computed based on the applicable criteria as detailed within the plan. Death and disability benefits are also provided.

**Funding Policy**

Covered employees can contribute between 0% and 10% of their annual salary to the retirement system. Employees hired prior to 1985 may be allowed to contribute 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. The County is required to contribute the remaining amounts necessary to fund the system.

Barry County Substance Abuse Services

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE F: EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

**Annual Pension Cost**

For the year ended December 31, 2006, the County's annual pension cost of \$1,187,741 for the plan was equal to the County's required contribution. The annual required contribution was determined as part of an actuarial valuation of the plan as of December 31, 2005, using the entry actual age cost method. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0%, (2) projected salary increases of 5% per year compounded annually, attributable to inflation, (3) additional projected salary increases ranging from 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit.

**Three (3) year trend information**

	Year Ended December 31,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial value of assets	\$ 22,817,148	\$ 24,516,645	\$ 26,855,177
Actuarial accrued liability (AAL) (entry age)	33,226,393	35,111,319	37,797,384
Unfunded AAL	10,409,245	10,594,674	10,942,207
Funded ratio	69%	70%	71%
Covered payroll	11,851,341	12,327,804	13,218,976
UAAL as a percentage of covered payroll	88%	86%	83%
Annual pension cost	987,062	1,069,299	1,187,741
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

The Agency's annual pension contribution was \$51,310.

**NOTE G: RISK MANAGEMENT**

The Agency, as a fund of Barry County, is protected from losses as described in the note captioned "Risk Management" within the County's Annual Financial Report.

**NOTE H: RELIANCE ON FUNDING SOURCES**

The Agency receives a majority of its support from the County of Kalamazoo substance abuse program, State, and local grant revenues. A significant reduction in the level of this support, if it were to occur, would have an effect on the Agency's programs and activities.

Barry County Substance Abuse Services

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE I: FUND DEFICIT:**

The following fund had an equity deficit at September 30, 2007:

	<u>Deficit</u>
Special Revenue Fund	<u>\$ 24,822</u>

**NOTE J: NET ASSET DEFICIT:**

The following activities had an unrestricted net asset deficit at September 30, 2007:

	<u>Deficit</u>
Governmental Activities	<u>\$ 41,016</u>

**NOTE K: GOING CONCERN ISSUE**

As shown in the financial statements the Agency's expenditures exceeded revenues for the year ended September 30, 2007 by \$93,166, resulting in a fund balance deficit of \$24,822. Resulting Net Assets at the government-wide level were in a deficit position of \$41,016. These factors raise substantial doubt about the Agency's ability to continue as a going concern for a period of time less than one (1) year beyond September 30, 2007.

To address this substantial doubt, the Agency will scale down its operations and reduce expenses; also the Agency will receive funding from its Primary Government.

Management believes these factors will allow it to achieve greater cash flows from operations. The financial statements do not include any adjustments that might be necessary if the organization is unable to continue as a going concern.

## **REQUIRED SUPPLEMENTARY INFORMATION**

Barry County Substance Abuse Services

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - SPECIAL REVENUE FUND

Year Ended September 30, 2007

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Intergovernmental	\$ 368,590	\$ 368,590	\$ 362,287	\$ (6,303)
Charges for services	229,216	229,216	148,867	(80,349)
Other	28,000	28,000	15,852	(12,148)
<b>TOTAL REVENUES</b>	<b>625,806</b>	<b>625,806</b>	<b>527,006</b>	<b>(98,800)</b>
<b>EXPENDITURES</b>				
Health and welfare				
Treatment	370,444	370,444	390,240	(19,796)
Prevention	140,290	140,290	119,181	21,109
Women specialty	61,781	61,781	64,534	(2,753)
Assessment	35,689	35,689	28,905	6,784
Methamphetamine task force	17,602	17,602	17,312	290
<b>TOTAL EXPENDITURES</b>	<b>625,806</b>	<b>625,806</b>	<b>620,172</b>	<b>5,634</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>-0-</b>	<b>-0-</b>	<b>(93,166)</b>	<b>(93,166)</b>
Fund balance, beginning of year	68,344	68,344	68,344	-0-
Fund balance (deficit), end of year	<u>\$ 68,344</u>	<u>\$ 68,344</u>	<u>\$ (24,822)</u>	<u>\$ (93,166)</u>

## **OTHER SUPPLEMENTARY INFORMATION**



Barry County Substance Abuse Services

Special Revenue Fund

SCHEDULE OF EXPENDITURES BY PROGRAM

Year Ended September 30, 2007

	<u>Treatment</u>	<u>Prevention</u>	<u>Women Specialty</u>
EXPENDITURES			
Salaries and wages	\$ 258,679	\$ 68,005	\$ 34,620
Payroll taxes and other fringe benefits	<u>99,879</u>	<u>35,750</u>	<u>15,398</u>
Total salaries and related expenditures	358,558	103,755	50,018
Travel	1,954	2,930	3,114
Supplies and materials	8,197	5,695	4,641
Contracted services	12,371	2,128	1,983
Other	<u>9,160</u>	<u>4,673</u>	<u>4,778</u>
TOTAL EXPENDITURES	<u>\$ 390,240</u>	<u>\$ 119,181</u>	<u>\$ 64,534</u>

<u>Assessment</u>	<u>Methamphetamine Task Force</u>	<u>Total</u>
\$ 18,007	\$ 9,825	\$ 389,136
7,937	1,606	160,570
25,944	11,431	549,706
101	208	8,307
1,771	5,132	25,436
281	216	16,979
808	325	19,744
<u>\$ 28,905</u>	<u>\$ 17,312</u>	<u>\$ 620,172</u>

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors  
Barry County Substance Abuse Services  
Hastings, Michigan

We have audited the financial statements of the Barry County Substance Abuse Services as of and for the year ended September 30, 2007, and have issued our report thereon dated February 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Barry County Substance Abuse Services' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Barry County Substance Abuse Services' internal control. Accordingly, we do not express an opinion on the effectiveness of the Barry County Substance Abuse Services' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

2007-1 PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GAAP

Criteria: The Agency is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the Agency rests with the Agency's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting fund financial statements, including the related note disclosures (i.e., external financial reporting).

Condition: It has historically been common for many smaller governments to rely on the independent auditors to assist in the preparation of the financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, an organization's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the Agency's internal controls.

## 2007-1 PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GAAP - CONTINUED

The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

Effect: As a result of this condition, the employees and/or management may not possess the qualifications necessary to prepare the Agency's annual financial statements and notes to the financial statements in accordance with GAAP. The Agency relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

Recommendation: We recommend the Agency consider obtaining proper training for the appropriate members of the Agency's administration to assure that they are able to fully understand the requirements of preparing GAAP financial statements. This understanding is essential for the Agency's administration to be able to accept responsibility for the amounts and disclosures included in the Agency's financial statements.

Corrective Action Response: Management of the Agency will continue to look for opportunities to increase our understanding of the requirements of preparing GAAP financial statements. However, at this time we believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing for future years.

## 2007-2 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: Material journal entries for the adjustment of accrued wages and other accounts payable were proposed by the auditors.

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

Effect: Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the Agency's internal controls.

Recommendation: We recommend that the Agency take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: The Agency will work toward having all material journal entries completed before auditing fieldwork commences.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-1 and 2007-2 to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Barry County Substance Abuse Services' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*:

### 2007-3 FUND BALANCE AND NET ASSET DEFICITS

Condition: As of September 30, 2007 the Agency's fund balance was in a deficit position of \$24,822, and Net Assets were in a deficit of \$41,016.

Criteria: An organization's ability to continue operations and provide its services to the community is largely dependent on a healthy financial condition.

Effect: The Agency's financial position is such that there is concern about its ability to continue operations.

Recommendation: Management should review areas of operation which could be altered to help improve the agency's financial position.

Corrective Action Response: Management has taken up planning to identify areas of operation that could be altered to help improve the Agency's financial position. Efforts to defray the Fund Balance deficit during this fiscal year have commenced and we will address Net Assets Deficit in the future.

Barry County Substance Abuse Services' responses to the findings identified in our audit are described above. We did not audit Barry County Substance Abuse Services' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Board of Directors of Barry County Substance Abuse Services, others within the entity, pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

February 1, 2008